



## Introduction

Dear Mayor and Council Members, I am pleased to present City Council with the Manager's Proposed Budget for Fiscal Year 2018 and the Proposed Five-year Capital Improvement Plan.

This year's proposed budget is unique. It is not only the culmination of the annual budget process, but a major milestone in a two-year journey to create a new compensation system for our employees. One of the most challenging initiatives in our Strategic Plan is to "assess, develop and adopt a total compensation philosophy and structure." This initiative, 4.2 in the Organizational Excellence key focus area, requires us to overhaul our classification, pay and performance evaluation systems. Today, we are proud to follow through on this initiative.

Creating a competitive compensation system is fundamental to meeting the customer service needs of our growing City. Over the past five years, Raleigh has grown by about 46,000 residents, or 11%. The recommendations ensure that we attract, retain, and reward the talented employees we need to provide reliable, high-quality services to our Raleigh residents.

In late 2016, we conducted our first Community Survey to assess our residents' satisfaction with City services and determine community priorities. Respondents rated the City very positively. However, the results also revealed service areas that need to be addressed. The proposed budget allocates most of our new resources to implementing the compensation study recommendations. We have also allocated funds to prioritized services to respond to the survey results. This memorandum summarizes these carefully selected investments, then explains our recommended compensation system changes.

## Revenue Outlook

Our state, as well as the Triangle region, enjoys a strong economy. We expect our region to add roughly 30,000 jobs in 2017. The economy is the major driver for our revenue growth, including the City's largest revenue source, property tax. The proposed budget assumes regular property tax growth of \$6.8 million more than the FY2017 budgeted amount of \$242.9 million for a total of \$249.6 million in FY2018, a budgeted growth rate of 2.7%. Our budgeted sales tax revenue is estimated to increase by \$7.8 million in FY2018 to \$98.9 million. The utility franchise tax provides an additional \$29.4 million. User fee revenues for water and sewer services, stormwater management, and solid waste services also remain steady.

Staff will continue monitoring legislative changes that might affect our revenue streams. Proposals to eliminate some development fees or redistribute sales tax collections among counties could present serious problems for our capital improvement program and service delivery.





### Responding to the Community Survey

The Community Survey showed that residents have a very positive perception of the City. Ninety-one percent of respondents rated Raleigh as an excellent or good place to live and 87% viewed Raleigh as an excellent or good place to raise children. The survey also identified the community's top priorities and service areas that need to be addressed. Informed by the survey results and the Strategic Plan, we propose investing in the following carefully selected service areas:

**Managing Growth:** One community priority is managing Raleigh's growth. The proposed budget implements the development services user fee study approved by City Council in February 2017. The City will add 14 total positions to provide enhanced and new services to the development community. These positions, and other development services functions, will be fully covered by user fee changes that reflect the actual costs to provide services.

We propose fee increases for two enterprise services to help manage growth and meet other policy goals. A 3% increase in the monthly residential water and sewer bill will support the Public Utilities Department's efforts to maintain and expand infrastructure as Raleigh grows. To support Solid Waste Service improvements and meet our cost recovery goals, the budget includes a 75 cent increase in the monthly residential solid waste collection fee.

Another aspect of managing growth is ensuring the City has sufficient office space for current and future needs. The proposed capital plan continues to fund the Civic Campus project. Master planning for the municipal block began in January 2017 and will conclude this Fall. The master plan will establish our goals for security, sustainability, community access, and other aspects.

**Managing Traffic Flow:** Survey respondents identified managing traffic flow as the highest priority. The proposed budget initiates long-term changes that will improve regional traffic management. Wake County citizens approved a half-cent sales tax for transit in November of 2016. Using the new funding source, the Capital Improvement Plan (CIP) includes \$4 million for new buses that support increased route frequencies and Sunday services. The CIP also includes \$1.1 million to create a park-and-ride facility on Poole Road.

The opening of Raleigh Union Station marks another long-term investment in transit for the City. The station is scheduled to open in January 2018 and requires an estimated net annual investment of \$480,000. The station will be a major economic driver and provide infrastructure for future commuter rail enhancements.

Although not part of the FY2018 budget proposal, staff are refining a proposed transportation bond package that would complete several planned road widenings, providing much needed road capacity. The proposed bond will also invest in neighborhood traffic management and sidewalk improvements.





**Public Safety:** The Community Survey affirmed what we already knew, that our residents value law enforcement, fire, and emergency dispatch services.

The City of Raleigh Police Department has completed the body-worn camera pilot program and evaluation. The FY2018 budget funds the program's implementation. The proposed budget also funds a new social media position to enhance the department's community outreach and communications.

The proposed budget continues our long-term commitment to modernize the Fire Department's fleet. FY2018 funding supports the purchase of one rescue truck, two engines, and one ladder truck. We will also add 10 firefighter positions, supported by a grant from the Department of Homeland Security.

**Stormwater Management:** Another priority service for Raleigh residents is managing stormwater runoff. In FY2017, City Council provided additional resources to expand the stormwater capital program, specifically, more neighborhood drainage and infrastructure investments. This year's budget proposes no stormwater rate increase, but uses existing funds to add four positions to continue the long-term infrastructure maintenance program and ensure timely completion of projects.

**Citizen Engagement:** The Community Survey showed that residents care a great deal about how City staff share information and involve them in decision making. Additionally, the Mayor and Council have indicated citizen engagement is an important topic through the creation of the Citizen Engagement Task Force. The proposed budget provides additional resources to support this priority.

The proposed budget creates a new Assistant Director/Executive Director position within the Housing and Neighborhoods department to lead the City's broader citizen engagement efforts. The position will work with the Chair and members of the Human Relations Commission to refine the Commission's scope of work and community support. The position will also examine the role of the City's community engagement staff, focusing on ways to better support City departments, Citizen Advisory Councils, and other stakeholders.

We will also add three positions for City Planning. We propose a communications manager to coordinate and enhance our citizen engagement related to planning and rezoning processes. The new position will help insure City Planning conducts strong engagement processes that have a meaningful impact on outcomes. The position will also manage web content and help staff respond to Council's questions. In addition, we will add two planner positions to increase staff capacity for small area planning, comprehensive plan updates, and other special projects.

To further improve citizen engagement efforts, the proposed budget funds consulting services in both the City Planning and Housing and Neighborhoods departments. After working with the Council to define scope and timing, we propose using consultants to evaluate current citizen engagement practices and techniques, identify best practices, and





work towards implementing changes. Additionally, we propose using consulting services to assist City Planning with increased meeting facilitation resources and training City staff in citizen engagement skills.

One specific piece of feedback residents provided in the survey was that sometimes they find it difficult locating information on the City website. The proposed budget funds a redesign of the website that will, among other improvements, make it easier for residents to find the information they need.

## General Fund Capital Reserves

One of the City's key financial policies is to maintain an unassigned fund balance of at least 14.0% of the succeeding year's expenditure budget. The funds in excess of this amount, commonly called capital reserves, are available for high priority capital projects and one-time needs. The City has \$13.4 million in General Fund Capital Reserves. The proposed budget applies roughly \$3.6 million of these capital reserves to prioritized one-time needs, leaving a balance of roughly \$9.8 million. These needs include:

- \$2 million for City Plaza renovations,
- \$630,000 for life safety improvements at the Marsh Creek Operations Center,
- \$400,000 for tenant upfits in Raleigh Union Station,
- \$250,000 for a Midtown/St. Albans area plan,
- \$200,000 for police vehicle equipment, and,
- \$100,000 to design a Fire Department driver training pad.

## Employee Benefit Package

The proposed budget maintains our highly competitive package of employee benefits. We expect our health plan expenses to increase by roughly 11% in FY2018, driven by both medical claims and pharmacy costs. While some of the cost increase will be passed on to employees through premium increases, the proposed budget has the City absorbing most of the increase.

Our philosophy calls for employees and retirees to cover a smaller portion of the overall costs. We propose increasing the monthly employee and retiree premiums for all plan types. Depending on plan type, increases will range from \$2 to \$28 per month. The premium increase would take effect January 1, 2018. We propose no changes to out-of-pocket maximums and will maintain the no-premium employee-only plan that covers 36% of our employees.

We propose two significant enhancements to our benefits package. First, to continue promoting a family-friendly workplace and remain competitive with other employers, we recommend providing up to eight weeks of paid parental leave to new parents. The leave will be available to full-time male and female employees within the first twelve months following the birth, adoption or placement of a child.





The second benefit enhancement is that the City will cover additional treatment options for children with autism. Specifically, our health plan will cover up to \$40,000 per plan year in costs for adaptive behavior treatment for children up to the age of 18. This coverage requires a significant financial commitment, but we believe this is an important service to provide covered employees. This coverage also brings the City health plan in line with most large North Carolina cities.

Finally, in an effort to encourage healthy choices and behaviors we will include covered spouses in our annual wellness assessment. Effective January 1, 2018, participation will be required to be eligible for any City provided health contribution discount.

#### Implementing the Compensation System Changes

City staff have worked diligently over the past two years to reach today's recommendation. First, we developed a compensation philosophy that City Council approved in February 2016. We conducted a market survey in late 2016. The results showed that many of our positions were significantly misaligned from the market. We responded quickly to the market survey with mid-year pay adjustments this April for roughly 2,100 positions.

We build on these steps with recommended compensation system changes. Our recommendation is significant for several reasons:

- We successfully address the Strategic Plan initiative to “assess, develop and adopt a total compensation philosophy and structure.” (*Organizational Excellence 4.2*)
- For our critical police and fire services, we build on the mid-year market adjustments with structural changes that make the City of Raleigh highly competitive with regional employers. This is a significant financial investment in our first responders that we expect will reduce police turnover rates and ensure our Police and Fire departments recruit and retain highly qualified individuals; and,
- The Community Survey showed that residents rate the City's customer service quality 36 points higher than the national average. The recommended structural changes to the compensation system enable us to recruit and retain staff to continue providing outstanding customer service.

We recommend the following policy and structural changes:

- **Classification structure:** Reduce the number of job classifications (formal job titles) from 750 to 250 broader classifications. The new job classifications are grouped into “job families” with similar functions. This simpler structure creates more consistency across City departments and reduces the need for future reclassification requests.
- **Pay structures:** We recommend three distinct pay structures to meet the needs of different position groups. These include:







- Police and Fire step pay structure – This includes pay schedules for sworn police up to the rank of Sergeant and uniform fire positions up to the rank of Captain. Roughly 1,200 full-time employees fall into this structure;
- General step pay structure – This step system will capture 2,000 full-time skilled trade, labor, and administrative positions throughout the City. The step structure provides employees consistent, predictable pay growth; and,
- Broadband – This approach is based on fewer pay levels and wider pay ranges. This structure will apply to 800 positions, including executives, managers, and other technical positions.
- **Market alignment:** All new pay ranges are based on current market data. Our pay midpoints are in alignment with the regional and national municipalities we benchmarked ourselves against. To stay aligned with the market, the City commits to conducting regular market surveys and adjusting pay ranges based on market data.
- **Performance review tool:** We recommend new performance review tools customized to the different employee groups. Broadband employees will receive variable pay increases based on performance. Step system employees who successfully meet expectations will receive a step advancement each year.

We recommend fully implementing the new classification system and pay structures in FY2018. To achieve this one-year implementation, we will take the following actions, effective September 30, 2017:

- **Bring employees to new pay range minimums:** Approximately 700 employees would need their pay adjusted up to the new range minimum. The General Fund cost totals nearly \$1.3 million;
- **“True up” adjustments:** Some employees qualified for a mid-year market adjustment in April, but did not receive one because their current pay was above the old pay maximum. Other employees received a reduced adjustment because their pay was near the old maximum. Now that pay maximums will be adjusted, we recommend funding the remaining adjustments that these 200 employees did not receive in April. This costs the General Fund \$804,000.
- **Implement the step structures:** The most costly change, totaling nearly \$4.2 million in the General Fund, is implementing new step structures. We will place 2,000 general employees into a step structure based on time in their current position.

| Implementation Steps                        | FY2018 General Fund Cost | Description  |
|---|--------------------------|--|
| Bring employees to new range minimums       | \$1,267,000              | Adjust pay of roughly 700 employees to bring to market-based pay minimums            |
| “True up” adjustments                       | \$804,000                | Adjust pay of roughly 200 employees using the FY17 mid-year guidelines               |
| Implement the step structures               | \$4,167,000              | Place 1,200 police officers and firefighters, and 2,000 general employees onto steps |
| One-time lump sum payment during transition | \$741,000                | “Hold harmless” payments during transition to step structure                         |
| Broadband adjustment and merit              | \$1,405,000              | Market adjustment of 2% for 800 employees, 2% merit based on satisfactory review     |
| <b>TOTAL:</b>                               | <b>\$8,383,000</b>       |  |





Adjustments in the general step structure will be limited to a 15% maximum increase. Most of the cost is driven by placing 1,200 police officers and firefighters into the new step structure. To address turnover in our critical law enforcement service, and to recognize the importance of pay separation within the public safety chain of command, Police and Fire step adjustments will be limited to a maximum of 20%.

- **One-time lump sum payment during transition:** Lastly, when we place 3,200 employees onto specific steps, employees will receive different adjustments to their permanent pay. Some employees may receive adjustments of 6-7% or higher, others will receive adjustments under 1%. Step advancement will not begin until FY2019, but we want to ensure employees receive annual earnings in FY2018 equal to a step advancement. For employees receiving a pay adjustment less than a step advancement would produce, we recommend a one-time lump sum payment to reach the step advancement amount. This ensures that employees below the midpoint of their new step pay range receive 5% additional earnings and employees above midpoint will 3% additional earnings. These one-time payments are a harmless effort during the transition. The General Fund cost for this lump sum comes to \$741,000.
- **Broadband adjustments and merit:** For 800 employees in the broadband pay structure, we recommend a 2% market adjustment. The market survey results showed that an additional increase for these management and technical positions would bring them more in line with the market. In addition to the market adjustment, we recommend a 2% merit increase for broadband employees receiving a satisfactory job performance rating. The market adjustment and merit increase will cost the General Fund \$1.4 million.

These policy and structure changes are complex, but will make us a highly competitive employer. Specifically,

- We will be a regional leader in our starting salaries for police officers and firefighters. The starting pay for police officers will increase to \$42,300, higher than all but one regional municipality compared to FY2017 salaries. The starting pay for firefighters will increase to \$39,200, the highest of any regional municipality in FY2017.
- For our tenured, experienced senior police officers, pay maximums will increase by nearly 14%. Pay maximums for senior firefighters will increase by nearly 20%.
- Outside the public safety area, more than 2,100 positions will see starting pay increases; and
- We provide higher earning potential for our experienced general employees. Outside of public safety departments, more than 1,700 positions will see pay maximums increase by more than 10%.

In February, we told City Council that we would refine our revenue estimates and consider trade-offs to fund the April mid-year adjustments and additional compensation system changes. Department directors have prioritized their individual department needs and requested few new resources. We have carefully considered and prioritized these few





departmental requests. The proposed budget includes 54 positions, but only nine positions are not funded by new revenues or tradeoffs with other expenditures. These nine include:

- Two 911 Call Takers in Emergency Communications,
- Three positions in City Planning, including a Communications Manager and two Planner II's,
- One Assistant Director/Executive Director in Housing and Neighborhoods,
- One Traffic Services Technician in Transportation to focus on road signage,
- One Maintenance Mechanic in Engineering Services to staff the new Raleigh Union Station, and,
- One Application Manager in Information Technology to support new applications and data management.

Through revenue growth and tradeoffs, we are able to cover most of the implementation costs. However, to implement the structural changes in one year, and sustain the ongoing operating costs, we recommend a 0.7 cent property tax rate increase from 41.83 to 42.53 cents per \$100 valuation. This increase will generate an additional \$4.1 million per year. The increase allows the City to implement the new structures in one year and sustain the changes without having to eliminate services. We recognize this is a significant investment decision for City Council. Raleigh's median taxable value for a home is \$195,154. The proposed increase would cost the owner of a median value home \$13.68 per year.

### Conclusion

In this proposed budget, we recommend significant policy and structure changes to our compensation system. These changes will ensure that we attract, retain, and reward the talented employees we need to provide reliable, high-quality services to our growing city. Two years ago, we began creating a compensation system that is competitive, consistent, and simple. We believe we have accomplished that goal.

We appreciate City Council's patience as we have developed and refined the compensation system recommendations. And, we appreciate your support throughout the budget process. We look forward to working with you on these important policy decisions.

To discuss the proposed budget, the City Council will hold a work session each Monday in June. All work sessions begin at 4 p.m. in the Council Chamber. These work sessions continue until the City Council has adopted an annual operating budget and five-year capital plan. We will hold a public hearing on the budget on Tuesday, June 6, at 7 p.m.

Thank you,

Ruffin L. Hall, City Manager

